Meeting Objectives:

1. *Confirm our ability to be competitive on Forsyth/Total RJR with "the bundling approach".*

2. *Identify options to be more competitive on "dead net" price when necessary given today's environment.*

3. *Confirm role/strategies/key issues for MONARCH/BEST VALUE.*

4. *Decide on DORAL SOC application to MON/BV and/or Distr. PL's.*

5. ~~*Confirm target accounts/guidelines.*~~

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Source: https://www.industrydocuments.ucsf.edu/docs/fywn0000

Merchandising Accrual $ Example:

Input:

- ❑ 127 Store Chain
- ❑ All RJR CPW = 44
- ❑ Forsyth CPW = 20
- ❑ Merch. Acc. w/PL = $50 mo.
- ❑ Merch, Acc. w/o PL = $10 mo.

	Annual Accrual $	
	Disadvantaged ($.10)	Advantaged ($.25)
Available for FP Promotions	$15,240	$76,200
PL Direct Contributions (132,080 ctns.)	0	($33,020)
Available for FP Promotions	$15,240	$43,180
PL Indirect Contribution	0	($27,940)
	$15,240	$15,240

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Source: https://www.industrydocuments.ucsf.edu/docs/fywn0000

Even when "bundling", some situations exist where the "dead net" retail price of Forsyth is not competitive in a given market/chain (e.g., 99¢ price point)

. . . How do we "step-up" with existing dollars?

	Wholesale	Retail
Partner Type:	❑ 15% PL Volume ❑ 68% PL Contracts ❑ Less Control	❑ 85% PL Volume ❑ 32% PL Contracts ❑ Control Environment
Net. . .	***Lower Priority***	***Higher Priority***
Options:	❑ Utilize Forsyth Partner $$ ❑ Utilize Forsyth SOC $$ ❑ Utilize Other Partners $$ ❑ ~~Reduce Forsyth Partners Payment and Establish National War Chest (e.g., $.18 → $.06 = $6.6MM)~~	❑ Utilize DORAL SOC weighted to Forsyth ❑ Utilize Merch. Accrual $$ **(on Forsyth PL volume)** ❑ Utilize Forsyth SOC $$ ❑ ~~Utilize Mech. Accrual $$ (FP/BS from Forsyth PL) (without compromising promotion plan)~~
Net. . .	***Less Flexibility***	***Greater Flexibility***
Where/How:	National or Selective	National or Selective
	Less Flexible ***Less Flexible***	***Less Flexible*** ***More Flexible***

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Source: https://www.industrydocuments.ucsf.edu/docs/fywn0000

Net. . . "Bundling" Works In Majority Of Situations

- **Field must understand and apply the "bundling" principles consistently**
  - Forsyth/Acct. Mktg. Svcs. group developing template to facilitate (Retail/Wholesale Investment Summary)

- **Bundling process varies between indirect/direct chains, but process is generally effective on both.**

- **In few exception cases, RJR/Forsyth may have to step up.**

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Source: https://www.industrydocuments.ucsf.edu/docs/fywn0000

RJR Bundling Scenario - Candy/Tobacco Distributor Z

Example #3

Input:

Partners Earnings = $.22

	Base SOM	End SOM
Total RJR	31.4	32.3
Total RJR SAV	34.8	37.1
Total RJR FP	22.7	23.1

Star at $4.76

Conclusion:

While Forsyth PL is still $.21 a carton higher than Star, our retail bundling still comes into play in wholesaler need to satisfy his customers. Also, by driving a much lower price you are inviting another industry FP rollback.

Calculation:

PL List	$8.79
Terms EFT	$ .32
O/I	$2.00
Alliance Accrual	$ .30
PL SOC	$ .40
Net PL	$5.77

Bundling:

Wholesale Partners PL Only $ .22

Wholesale Partners PL to Overall $ .58

Without PL would not have achieved RJR SOM or SOS base shares ($.08/ctn. on all volume x PL = 1,586,252/ctns. = -$126,900)

Dead Net w/Bundling *$4.97*

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Source: https://www.industrydocuments.ucsf.edu/docs/fywn0000

RJR Bundling Scenario - Chain Y (Direct - Multiple Branches)

EXAMPLE #2

Input:

750 Stores
RJR CPW = 192 per
PL CPW = 64 per
RJR Merch. = $ 449 mo.
PM Exclus. = $ 607 mo.
Star PL = $4.76 ctn.

Assumption:

RJR $158 mo. short on merch. payments ($1.4MM)

Forsyth $.91 ctn. short on PL ($2.3MM)

Conclusion:

When bundling our PL and other programs together our PL is worth $.93 per carton more than Star's.
$.93 x 2,496,000 = $2.32MM

RJR Bundled	+$2.32MM
PM	-$ 1.4MM
	+$ .92MM

If total value of PL considered through "bundling" chain is still +$.92MM better off with RJR.

- In addition, this account would receive no merch. accrual, no gap or ceiling $ if PM exclusive = additional $2.8MM lost from RJR while only picking up $1.7MM from PM.

Calculation:

PL List	$8.79
Terms/EFT	.32
O/I	2.00
Alliance Accrual	.30
SOC PL	.50
Net PL	$5.67

Bundling:

Wholesale Partners on PL Only	.16	on each ctn. of PL
Wholesale Partners PL to Overall	.08	weighted on PL ($.08 on half of ctns. for ≥ SOS)
Merch. Payments	.50	without PL would drop 2 grids or $.50 weighted to PL
Merch. Accrual PL only	.25	would lose $2,160,000 merch.
Merch. Accrual FP/BS	.61	accrual by going with Star only ($324 to $84mo.)
DORAL SOC	.24	if we have PL, acct. gets $.50 ctn. on DORAL if SOS 75%+

Dead Net w/Bundling *$3.83*

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Source: https://www.industrydocuments.ucsf.edu/docs/fywn0000

RJR Bundling Scenario - Chain X (Indirect)

Example #1

Input:

127 Stores
RJR CPW = 44 per
PL CPW = 20 per
RJR Merch. = $ 210 mo.
Star PL $4.76 + $.43 = $5.19

Calculation:

PL List	$8.79
O/I	$2.00
Alliance Accrual	$ .30
SOC PL	$ .50
	$5.99

Assumption:

Forsyth $.80 ctn. short on PL ($106M)

Conclusion:

When bundling PL and other programs together, our PL is worth $.27 per carton more than Star's.
$.27 x 132,080 PL cartons = +$35,661 per yr

Bundling:

Merch. Payments	$ .58	Without, PL would drop 3 grids ($50mo) or $.58 weighted to PL
Merch. Accrual PL Only	$ .25	On all PL sales
Merch. Accrual FP/BS	$ .21	$.15/ctn. on FP/BS ctns. or $.21 weighted to PL (drop from $50 to $10)
DORAL SOC	. $ .03	If we have PL, account gets $.50/ctn. on DORAL if SOS 75%+
Dead Net w/Bundling	$4.92	

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Source: https://www.industrydocuments.ucsf.edu/docs/fywn0000

Specific to Bundling:

- *Some* *More Than Competitive*
- *Most* *Very/Competitive*
- *Few* *Don't Get You There*

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Source: https://www.industrydocuments.ucsf.edu/docs/fywn0000

Other $$ Impacted by Forsyth

Specific to Forsyth	$ 5.46	$5.46
		Est. Avg.
Total RJR Merch. Accrual	.25	.25
DORAL SOC	0 ↔ .50	.20
	.25 - .75	.45
Driven by Forsyth		
Merch. RDA's	0 ↔ .60	.45
Total RJR Partners (ex. Forsyth)	0 ↔ .16	.10
Merch. Accrual (ex. Forsyth)	.15 ↔ .50	.30
	$. 40 ↔ $2.01	$1.30
Net Value Price of PL	$5.06 ↔ $3.45	$4.16

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Source: https://www.industrydocuments.ucsf.edu/docs/fywn0000

Current Pricing

List	$8.79
Terms/EFT	.32
O/Invoice	$2.00
Alliance Accrual	$ .30
S.O.C.	$ .50
	$5.67
Wholesale Partners	$0 - .44
	$5.67 ↔ $5.23
	$5.46 Partners Avg. (21¢)

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Source: https://www.industrydocuments.ucsf.edu/docs/fywn0000